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CITY OF SAN JOSE
HOUSING DEPARTMENT

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Memorandum
by City Manager's Office

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Leslye Krutko

SUBJECT: SEE BELOW

DATE: November 21, 2005

Approved Deanna Santana Date 11-22-05

COUNCIL DISTRICT: Citywide
SNI Area: All

SUBJECT: HOMEBUYER PROGRAM FOCUS GROUP
(COUNCIL REFERRAL # 9-20-05-4.3)

INFORMATION

On September 20, 2005, the City Council approved increased loan limits in the Teacher Homebuyer Program (THP) for low- and moderate-income homebuyers. At that time, the City Council also directed staff to hold a focus group with teachers who have used the City's homebuyer program to obtain feedback on program operations and, in particular, to discuss program restrictions related to home equity. Current Housing Department lending policies prohibit homebuyers from being able to borrow from the accrued equity in their homes until they are sold or transferred.

FOCUS GROUP FEEDBACK

On October 26th the Housing Department held a homebuyer focus group. Over thirty participants in the City's homebuyer program were invited to meet with Housing Department staff. Four households attended and were asked about their experiences with the Program. Each of the participants said that they were extremely satisfied with the City's homebuyer programs and said that they were appreciative of the efforts the City is making to provide affordable homeownership opportunities. One person stated that she would never have been able to purchase a home in San José without the help of the City.

All of the participants said that their experience working with the City's list of experienced lenders was positive. However, one person said that she decided to switch loan agents midway through her loan approval process because her original lender did not understand the City's Program. The majority of attendees participated in the pre-purchase homebuyer education course offered through Neighborhood Housing Services of Silicon Valley (NHSSV) and said that the class was extremely useful and helped them understand the responsibilities of homeownership.

Each of the participants stated that benefiting from the accrued equity in their homes was not part of their immediate concerns when they originally purchased their homes. The homeowners were receptive to the idea of utilizing accrued equity in their homes prior to sale and agreed that having the ability to prepay the City loan (including any amount of equity share due), take out a

Home Equity Loan, or do a "cash-out" refinance would enable them to respond better to future financial demands such as necessary home improvements, education and tuition costs, and/or consolidation of higher rate debt.

CONCLUSION

The Housing Department is reviewing comments from the focus group and will continue to explore ways to improve the program, including improved outreach to the lending community, fostering partnerships with school districts and NHSSV, and continued marketing to low- and moderate-income homebuyers. In the month of November, Housing Department staff met with the City Attorney's Office to discuss options for allowing City assisted homebuyers to take advantage of equity gains in assisted units. One proposal is to allow assisted homebuyers to prepay their City loan principal, plus any amount of equity share monies due, prior to borrowing against their additional equity. A second proposal is to allow homebuyers to borrow against a portion of their accrued equity by placing limits on the total amount of equity that can be borrowed against to help protect the City's interest in the case of loan default. The Housing Department will continue to collaborate with the City Attorney's office to evaluate these and other proposed policy changes that would potentially enable homebuyers to benefit from the accrued equity in their homes prior to sale or transfer. The Housing Department plans to amend its internal lending policies to implement these ideas by Spring 2006.


LESLYE KRUTKO
Director of Housing

